

# **Exhibit C**

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the quarterly period ended September 30, 2014  
or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the transition period from to  
Commission File Number 001-34986

**FXCM Inc.**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of  
incorporation or organization)

**27-3268672**

(I.R.S. Employer  
Identification No.)

**55 Water Street, FL 50**  
**New York, NY 10041**

(Address of principal executive offices) (Zip Code)

**Telephone: (646) 432-2986**

(Registrant's telephone number, including area code)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

The number of shares of the registrant's Class A common stock, par value \$0.01 per share, outstanding was 47,160,590 as of November 6, 2014. The number of shares of the registrant's Class B common stock, par value \$0.01 per share, outstanding as of November 6, 2014 was 34.

[Table of Contents](#)**FXCM Inc.****Notes to Unaudited Condensed Consolidated Financial Statements****Note 20. Segments**

ASC 280, *Segments Reporting*, establishes standards for reporting information about operating segments. Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker, or decision making group, in deciding how to allocate resources and in assessing performance. The Company's operations relate to FX trading and related services and operate in two segments - retail and institutional, with different target markets and are covered by a separate sales force, customer support and trading platforms. The Company's segments are organized around three geographic areas. These geographic areas are the United States, Asia and Europe and are based on the location of its customers' accounts.

**Retail Trading**

The Company operates its retail business whereby it acts as an agent between retail customers and a collection of large global banks and financial institutions by making foreign currency markets for customers trading in foreign exchange spot markets through its Retail Trading business segment. The Retail Trading business segment includes the Company's white label relationships, contract for differences, payments for order flow (through August 1, 2014) and rollovers. In addition, the Retail Trading business segment includes offerings to some of the Company's smaller retail clients to trade with a dealing desk, or principal model.

**Institutional Trading**

Institutional Trading facilitates spot foreign currency trades on behalf of institutional customers, market making and electronic trading in the institutional foreign exchange spot and futures markets. The facilitation of spot foreign currency trades allows customers to obtain the best execution price from external banks and financial institutions.

Our Institutional Trading segment also includes Lucid, an electronic market marker and trader in the institutional foreign exchange spot and futures markets, and activity from the recent acquisitions of Faros and V3. The V3 acquisition expanded the Lucid business model into a broader array of financial instruments and provides more robust connectivity to various financial exchanges.

Information concerning the Company's operations by reportable segment is as follows, with amounts in thousands:

	Three Months Ended September 30, 2014			
	Retail Trading	Institutional Trading	Corporate	Total
Total revenues	\$ 91,861	\$ 23,926	\$ 360	\$ 116,147
Total expenses	52,284	27,859	31,724	111,867
Loss on equity method investments	-	239	137	376
Income (loss) before income taxes	\$ 39,577	\$ (4,172)	\$ (31,501)	\$ 3,904

	Three Months Ended September 30, 2013			
	Retail Trading	Institutional Trading	Corporate	Total
Total revenues	\$ 90,392	\$ 22,856	\$ -	\$ 113,248
Total expenses	56,900	20,721	41,785	119,406
Loss (gain) on equity method investments	-	244	(61)	183
Income (loss) before income taxes	\$ 33,492	\$ 1,891	\$ (41,724)	\$ (6,341)

[Table of Contents](#)***Primary Sources of Revenues***

Most of our revenues are derived from fees charged as a markup or commission when our retail or institutional customers execute trades on our platform with our FX market makers. This revenue is primarily a function of the number of active accounts, the volume those accounts trade and the fees we earn on that volume.

*Retail Trading Revenue* - Retail trading revenue is our largest source of revenue and is primarily driven by: (i) the number of active accounts and the mix of those accounts - markup or commission accounts; (ii) the volume these accounts trade, which is driven by the amount of funds customers have on deposit, also referred to as customer equity, and the overall volatility of the FX market; (iii) the size of the markup we receive, which is a function of the mix of currency pairs traded, the spread we add to the prices supplied by our FX market makers and the interest differential between major currencies and the markup we receive on interest paid and received on customer positions held overnight; and (iv) retail revenues earned from contract for differences ("CFD") trading, fees earned through white label relationships, payments we receive for order flow from FX market makers and income from spread betting. Effective August 1, 2014, we no longer receive payments for order flow. For the three and nine months ended September 30, 2014, 31% and 32%, respectively, of our retail trading revenues were derived from the activities noted in item (iv). For the three and nine months ended September 30, 2013, 37% and 34%, respectively, of our retail trading revenues were derived from the activities noted in item (iv).

*Institutional Trading Revenue* - We generate revenue by executing spot FX trades on behalf of institutional customers through our institutional trading desks: FXCM Pro and Faros, a company in which we acquired a 50.1% controlling interest. See "*Faros Acquisition*" under "*Results of Operations*". The counterparties to these trades are external financial institutions that hold customer account balances and settle these transactions. We receive commissions for these services without incurring market risk. We also earn revenues from market making and electronic trading in the institutional FX spot and futures markets through Lucid. In addition, with the creation of V3, we recently expanded market making and electronic trading into other asset classes. The income we earn on market making and electronic trading represents the spread between the bid and ask price for positions purchased and sold and the change in value of positions held.

*Other* - We are engaged in various ancillary FX related services and joint ventures, including use of our platform and trading facilities, providing technical expertise, and earning fees from data licensing. In addition, through our subsidiary FXCM Securities Limited ("FSL"), we earn commission revenues through equity and related brokerage activities.

***Primary Expenses***

*Compensation and Benefits* - Compensation and benefits expense includes employee salaries, bonuses, stock compensation awards, benefits and employer taxes. Changes in this expense are driven by fluctuations in the number of employees, changes in the composition of our workforce, increases in wages as a result of inflation or labor market conditions, changes in rates for employer taxes and other cost increases affecting benefit plans. The expense associated with our bonus plans can also have a significant impact on this expense category and may vary from period to period. Compensation and benefits also includes the portion of the 49.9% of Lucid's earnings allocated among the non-controlling members of Lucid based on services provided. This allocation of Lucid's non-controlling members earnings is reported as a component of compensation expense under *Allocation of net income to Lucid members for services provided*.

At the time of our initial public offering ("IPO") and thereafter, we have periodically granted awards of stock options to purchase shares of FXCM Inc.'s Class A common stock pursuant to the Long-Term Incentive Plan ("LTIP") to certain employees and independent directors. Stock options granted to employees in connection with our IPO were our largest grant to date representing 73% of our stock options awards granted. For the three and nine months ended September 30, 2014, we recorded stock compensation expense related to stock options granted of \$2.8 million and \$7.9 million, of which \$2.2 million and \$6.4 million, respectively, related to stock options granted at the time of our IPO. For the three and nine months ended September 30, 2013, we recorded stock compensation expense related to stock options granted of \$2.6 million and \$7.6 million, respectively, of which \$2.1 million and \$6.2 million, respectively, related to stock options granted at the time of our IPO. The LTIP also provides for other stock based awards ("Other Equity Awards") that may be granted by our Executive Compensation Committee. We did not incur any expense for Other Equity Awards for the three and nine months ended September 30, 2014 and 2013.

The Lucid acquisition resulted in \$9.4 million of deferred compensation. Through September 30, 2014, we recognized \$7.1 million of this deferred compensation, of which we recognized as compensation expense \$0.8 million and \$2.3 million in the three and nine months ended September 30, 2014, respectively. For the three and nine months ended September 30, 2013, we recognized \$0.8 million and \$2.3 million, respectively, as compensation expense.

[Table of Contents](#)*Other Selected Operating and Financial Metrics*

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Customer equity (in millions)	\$ 1,332	\$ 1,264	\$ 1,332	\$ 1,264
Tradable accounts	212,019	188,988	212,019	188,988
Active accounts	184,003	182,146	184,003	182,146
Daily average trades - retail customers	406,190	417,845	389,478	457,620
Daily average trades per active account	2.2	2.3	2.1	2.5
Total retail trading volume <sup>(1)</sup> (billions)	\$ 977	\$ 980	\$ 2,683	\$ 3,173
Retail trading revenue per million traded <sup>(1)</sup>	\$ 90	\$ 89	\$ 91	\$ 89
Average retail customer trading volume per day <sup>(1)</sup> (billions)	\$ 14.8	\$ 14.8	\$ 13.8	\$ 16.4
Daily average trades - institutional customers	40,145	46,563	42,710	32,884
Institutional trading volumes <sup>(1)</sup> (billions)	\$ 881	\$ 576	\$ 2,023	\$ 1,507
Average institutional customer trading volume per day <sup>(1)</sup> (billions)	\$ 13.4	\$ 8.7	\$ 10.4	\$ 7.8
Trading days	66	66	194	194

<sup>(1)</sup> Volume that an FXCM customer traded in period translated into US dollars.

**Three months ended September 30, 2014****Highlights**

Total retail trading volumes decreased \$3.0 billion or 0.3% to \$977.0 billion for the three months ended September 30, 2014 compared to the three months ended September 30, 2013. The decrease primarily stems from lower trading volumes in July 2014 compared to July 2013 mostly offset by higher volumes in September 2014 when compared to September 2013. Total active retail customer accounts at September 30, 2014 were 184,003, an increase of 1% from September 30, 2013. Total institutional trading volumes increased \$305.0 billion or 53.0% to \$881.0 billion for the three months ended September 30, 2014 compared to the three months ended September 30, 2013. The increase is primarily driven by an increase in volumes traded on the FastMatch platform.

- Total trading revenues increased \$2.4 million or 2% to \$112.2 million for the three months ended September 30, 2014 compared to the three months ended September 30, 2013.
- Net income increased \$7.5 million to a net income of \$2.4 million for the three months ended September 30, 2014 compared to the three months ended September 30, 2013.
- During the quarter, we acquired 13,000 active retail accounts with approximately \$54.4 million in client equity from IBFX.

**Revenues**

Retail trading revenue increased by \$0.9 million or 1% to \$87.8 million for the three months ended September 30, 2014 compared to the three months ended September 30, 2013. Revenue from retail FX trading was up \$0.4 million and CFD revenue was up \$0.5 million. Revenue from retail FX trading for the three months ended September 30, 2014 was impacted by an increase in volatility particularly in September 2014 offset by a decline in revenue from order flow. Beginning in August 2014, we no longer receive payments for order flow.

Institutional trading revenue increased \$1.6 million or 7% to \$24.4 million for the three months ended September 30, 2014 compared to the three months ended September 30, 2013. The net increase of \$1.6 million is primarily due to V3 revenue of \$5.4 million and an increase of \$2.7 million from institutional business trading on the FastMatch

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Accordingly, our effective tax rates reflect the proportion of income recognized by FXCM Inc. taxed at the U.S. marginal corporate income tax rate of 34% and the proportion of income recognized by each of our international subsidiaries subject to tax at their respective local jurisdiction tax rates unless subject to U.S. tax by election or as a U.S. controlled foreign corporation.

Our income tax provision decreased \$15.1 million for the nine months ended September 30, 2014 compared to the nine months ended September 30, 2013 due principally to the decrease in taxable income. The decrease in the effective tax rate for the nine months ended September 30, 2014 compared to the nine months ended September 30, 2013 is principally due to unfavorable tax adjustments applied to the current year tax loss benefit related to the non-deductibility of losses from certain partnerships that are allocated to other members, non-deductible penalties and jurisdictional tax rate differences. Also during the period, as in prior years, the Company established a valuation allowance on the Company's deferred tax asset associated with the foreign tax credit carryforwards generated during the period. During the nine months ended September 30, 2014, the Company elected to treat UK LTD as a controlled foreign corporation. As a result, the earnings of UK LTD are taxed at the UK tax rate of 21.5%, instead of the US rate of 34%. Additionally, the valuation allowance for foreign tax credit carryforwards is decreased because it no longer includes the impact of UK LTD's income taxes.

### **Segment Results**

#### **Retail Trading**

Retail Trading is our largest segment and consists of providing FX trading and related services to approximately 184,003 active retail customers globally as of September 30, 2014.

Revenues, operating and other expenses and income before income taxes of the Retail Trading segment for the three and nine months ended September 30, 2014 and 2013 are as follows:

	Three Months Ended		Nine Months Ended	
	September 30, 2014	September 30, 2013	September 30, 2014	September 30, 2013
(In thousands)				
Revenues	\$ 91,861	\$ 90,392	\$ 252,866	\$ 294,041
Operating and other expenses	52,284	56,900	156,122	166,332
Income before income taxes	<u>\$ 39,577</u>	<u>\$ 33,492</u>	<u>\$ 96,744</u>	<u>\$ 127,709</u>

#### **Three months ended September 30, 2014**

Revenues from our Retail Trading segment increased \$1.5 million or 2% to \$91.9 million for the three months ended September 30, 2014 compared to the three months ended September 30, 2013. The \$1.5 million increase is primarily due to \$0.9 million higher retail trading revenue. Revenue from retail FX trading was up \$0.4 million and CFD revenue was up by \$0.5 million. Other income was higher by \$0.2 million primarily due to \$0.4 million of higher dormancy and ancillary fees, partially offset by \$0.2 million related to lower income from FSL's brokerage activities. Revenue from retail FX trading for the three months ended September 30, 2014 was impacted by an increase in volatility, particularly in September 2014, offset by a decline in revenue from order flow. Beginning in August 2014, we no longer receive payments for order flow.

Operating and other expenses decreased \$4.6 million or 8% to \$52.3 million for the three months ended September 30, 2014 compared to the three months ended September 30, 2013. The net decrease is primarily attributable to a charge of \$3.5 million in connection with the termination of an employee contract recorded in the three months ended September 30, 2013, lower compensation costs of \$1.1 million for the three months ended September 30, 2014 and lower advertising costs of \$1.2 million due to reduced spend related to the lower volatility, partially offset by higher depreciation and amortization of \$0.6 million related to capitalized software and amortization of intangibles related to current year account acquisitions, \$0.4 million increase due to higher UK regulatory fees, \$0.4 million of higher bank processing fees and \$0.2 million of interest on borrowings under the credit facility.

#### **Nine months ended September 30, 2014**

Revenues from our Retail Trading segment decreased \$41.2 million or 14% to \$252.9 million for the nine months ended September 30, 2014 compared to the nine months ended September 30, 2013. The \$41.2 million decrease is primarily